

"Let's go" - the history of a post-Soviet pawnshop in St. Petersburg and its chairman

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"Let's Go" - The History of a Post-Soviet Pawnshop in St. Petersburg and its Chairman

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Let's Go"¹ - The History of a Post-Sovjet Pawnshop in St Petersburg and its Chairman

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Summary

This detailed history of a pawnshop company and its chairman in Saint Petersburg (Russia) is part of a research project titled 'The Role of Pawnshops in the Life Strategies of Low-Income Households', financed by the Volkswagen-Foundation.² The researched institution named *Ob'jedinionnyj Lombard* (United Lombard) is a successful pawnshop company in Saint Petersburg covering a market share of somewhere between 35% and 50%. In addition to pawnbroking it runs a buy-and-sell shop named *Ob'jedinionnyj Torgovyj Dom* (United Trading House) and has ambitions to expand its business abroad. In addition to its own pawnshop service, the firm offers franchising to other pawnshops in Russia and developed particular computer programs for this business. The chairman of this firm, Nikolaj Bobrov, a former military officer, and his associates in the firm's management are entrepreneurs of modern type, who took the chance of liberation of the Russian economy. However, the management has to always reflect upon the politico-economic conditions in Russia in their decision-making. These make business a risky venture and set narrow limits to future planning. To have a lobby for their interest, Bobrov and colleagues engendered the Interregional

¹ "Let's Go" is the slogan of the pawnshop company in Saint Petersburg. The advertisement material produces an analogy between the starting of a rocket and the company's take-off.

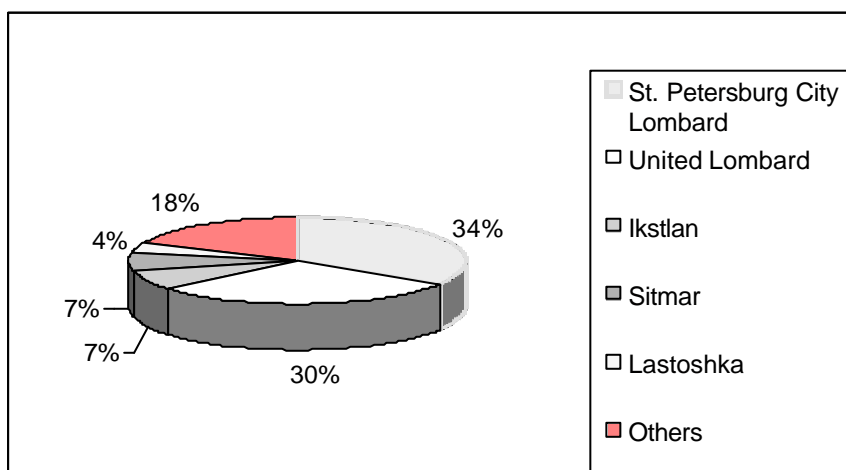
² The project was conducted by Heiko Schrader (research director) during his two-year visiting professorship (DAAD) at the Faculty of Sociology, State University of Saint Petersburg, in cooperation with the 'Center for Independent Social Research'. The paper is based upon two interviews with the chairman of one large pawnshop company in St. Petersburg, Nikolai Bobrov, in February/March 1999, and one interview with the vice-chairman of this company, Ruslan Grigoriev, each taking about one hour. Irina Chekhovskich, Oleg Patchenkov and Heiko Schrader made the interviews in Russian. We are thankful to Mr. Bobrov and Mr. Grigoriev for the information and openness in the discussion. We agreed to publish on this matter abroad only (not in Russia). Furthermore, I would like to thank Volkswagen-Foundation for the funding and, last but not least, Hans-Dieter Evers, bearing responsibility for this project at the University of Bielefeld. For further publications see Schrader (1999a, 2000)

Pawnbrokers Association in Russia.³ The elected president of this association is – Nikolai Bobrov.

Basic Information

OAD (open joint-stock company) *Ob'jedinionnyj Lombard*, hereafter United Lombard, was established in 1994 and within three years became one of the leading pawnshop in the Saint Petersburg market. In 1996, owing to the application of new technologies, the assets of the company grew triple. To learn from pawnshops abroad, United Lombard became a member of NPA – the American Pawnshop Association. Furthermore, it has close contacts to Austrian and Indonesian pawnbrokers and associations. Nowadays (1999) United Lombard runs five branches, and the sixth's one will be opened soon. In each branch work around five employees, serving all together 5.000 people daily. The number of customers amounts to more than 70.000. According to information from the authorities of the company, it nowadays has a market share of 50 - 60% of the lombard services market in Saint Petersburg, while information from 1997 outlined a share of 30%.

Fig. 1: Lombard Market Shares in Saint Petersburg, 1997



Source: Delovoj Peterburg 1997, No. 21, 25 March

Corporate shareholders, including banks, hold more than 50 % of the company shares. Besides, at present (1999) the company unites around three thousand individual shareholders.

³ For further information, see <http://www.united-lombard.spb.ru/association/index.htm>

In addition to pawnbroking the same company runs three branches of a buy-and-sell shop, called *Ob'jedinennyj Torgovyj Dom*, United Trading House. Besides, the company manages four branches in Moscow, bearing the *Lombard Stolichnyj* (Lombard Metropolitan) trademark, and another one in Perm.

Biography of Nikolai V. Bobrov and History of United Lombard

Nikolai V. Bobrov⁴ has finished the Mozhajskij Military Academy (Saint Petersburg) as a specialist in the field of nuclear power installations of space vehicles and received the military rank of an officer. After his training he served in Baikonur at the cosmodrom and participated in designing and launching the 'Buran' rocket complex. Later he moved to the Supreme Soviet of Kazakhstan. In his own words being an active supporter of the democratic movement in the army and one of the organizers of the meeting of military personnel for freedom and democratization, he was dismissed from the army within a week with the argument of 'staff reduction'. He was then the deputy of the city council in Leninsk (Kazakhstan).

Bobrov started working in a government company in Leninsk being engaged in advertising and processing information for the executive committee of the Leninsk city council. Entrepreneurial activity started when he attempted to establish a global information system on the basis of 'Lexan' modems, which were designed by the 'Menatep' group. This business ran almost until 1993. However, when foreign telecommunication systems entered the Russian market, this business was no longer competitive - in comparison with American projects and their long-term experience in the market.

For Bobrov and his colleagues in the management the personnel of the company meant more than just employees. They consisted of colleagues and friends - officers who served in Baikonur and Leninsk, and their wives and widows. With the collapse of business the management of the firm was confronted with a dilemma: either to remain in Leninsk and try something else, or to leave in search of better business opportunities. The first choice would mean to probably remain on a very low business level, the second, to make all the employees jobless:

⁴ Nikolai Bobrov has a limited knowledge of English, while his vice-chairmen for public relations and marketing, Ruslan Grigoriev, is more fluent. The interviews were guided and conducted in Russian.

“And we sat and started thinking what to do with this personnel. You see, it was the last stage of Perestroika step by step transiting to *coup d’etat*. The people trusted us, and besides, they were not young people, they were accustomed to live in the old way, they trusted in us, we just could not betray them. That’s why we sat and started thinking how we could keep them employed... Finally we came to the conclusion of establishing a pawnshop...As salaries and wages in Leninsk at that time were paid rather irregularly, people borrowed money from one another. There was no civilized way to borrow money. And we decided to open the first pawnshop, as the demand was evident... As banks did not finance private persons, a pawnshop was the only source for the people. So that was the reason why we set up a pawnshop” (personal interview).

And, as the personal funds were meager, a pawnshop was a realistic project, because it could start with very limited working capital. So, Bobrov’s decision was a combination of purely entrepreneurial factors (market conditions and prospects, limited working capital) with social responsibility for his employees, constituting his social capital.

The first pawnshop that Bobrov opened in Leninsk was a small-scale enterprise. It

“occupied eight square meters, the staff consisted of one full-time employee and two auxiliary workers. We organized our pawnshop in the way of a municipal lombard. After we understood that on the whole we pursued the right direction, we opened another pawnshop. This was in 1992” (personal interview)

However, with growing success Bobrov got into problems with the local Kazakh authorities.

“Well, you see, there was a burst of nationalism and Muslim tradition, and taking into account the authority structure of clan character, we took the decision to sell this business to local people and move away, because actually we had no opportunity to work. The strategy of the local authorities was to take us everything away. The following case exhausted our patience. It happened when there was lack of money to pay salaries for the teachers in Leninsk They [the authorities] called me and said: ‘Nikolaj Viktorovich, give us all the money you have got for today’. So that’s that. I had around 8 million rubles; it equaled two annual city budgets. So, they took me by force, arrested me and took the money, or more correctly, compelled me to give them the money. We wanted to hide the money, but they threatened me in a very simple way. They brought me into a cellar and said: ‘You have no other way out. You either leave from here and give us the money, or you will stay in this cellar forever’. The public authorities of the city, representatives of the city administration, ‘Zhilsocbank’, etc. participated in this action, because Papa

Nazarbaev had ordered to pay the salaries... These were the methods in Kazakhstan” (personal interview).

After this incident Bobrov decided to leave the region. He sold both pawnshops to local businessmen and arranged that the employees could continue working there. Some of them even became shareholders of these two pawnshops. Bobrov and associates decided to move to Saint Petersburg. This choice was not by accident.

“The life in Saint Petersburg is 2-3 times cheaper than in other cities... Secondly, at that time this city was less criminalized and more civilized than Moscow... You can imagine Moscow in 1991/92... I remember, the number of people - being assassinated, smothered and the like - amounted to 50 per month. The situation was more severe in Krasnoyarsk only” (personal interview).

Within half a year Bobrov and his team opened the first pawnshop in Saint Petersburg, choosing the legal status of the TOO (*Tovarischestvo s ogranichennoj otvetstvennost'ju*) type – at that time a company with limited liability. The institution was situated in Ogorodnyj Pereulok (lane). At present it constitutes the Kirov branch of the company. Within the next one-and-a-half years they opened another three pawnshops: the Pushkin branch, which now constitutes the head office [due to better living conditions than in the city], the branch in Moskovskij District and the branch in Kuptchino (see map). Then the company entered a new organizational level, shifting to the AOOT (*Akzionernoe obschestvo otkrytovo tipa*) organizational type - an open joint-stock company (now OAO: *Otkrytoe akzionernoe obschestvo*). Bobrov explained the reason of change as follows:

“We needed finance, and the cheapest money is the money of shareholders, not a bank loan. So that's why we registered our firm as a joint-stock company”.

The authorized capital for an AOOT was set to 5 billion rubles - at that time, an equivalent of 2.5 million USD. The shareholders, who bought up the control parcel, were foreign companies from America, Panama, Azerbaijan and some other countries. The buying-up worked via offshore zones. With regards to one of the main shareholders of the company Bobrov was more explicit:

“This prominent, respectable company working in the CIS markets for a long time has been engaged in export of gold and mineral fertilizers. It holds the control packages of shares of a number of large enterprises. It is also engaged in construction, i.e. it possesses layers of gold, rather unique technologies for

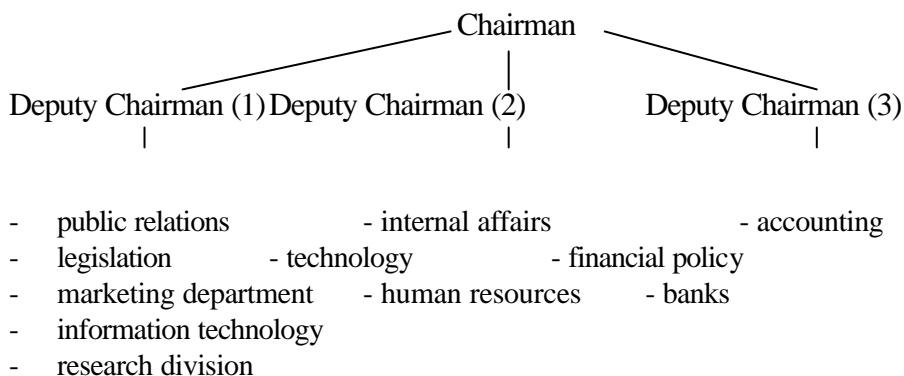
processing small-scale layers, up to 10 tons. So these are the activities of this company. It's engaged in building construction in Moscow and Saint Petersburg; you must have seen these complexes in the area between the two cities. I speak of big companies, there's no sense to name them... These companies are not Russian ones, however, they work here. Frankly speaking, I don't know whether or not they are citizens - we are not used to raise such questions. For instance, I contact a person with a warranty letter of a firm - I don't ask, who he is, where he comes from. I.e. we work with him, we know that they work somewhere, and it is a question of informal dialogue, although officially this firm, as you understand, has another firm or something somewhere else. But who is who - frankly speaking, I don't know" (personal interview).

Thus, more than 50 % of the shares got accumulated by a small number of companies.

Nowadays all Russian pawnshops have established close relations to banks. As a rule, one of these banks is the 'own' one, which means, it is an important shareholder of the pawnshop and has close financial relations with this bank and advantageous refinancing possibilities. United Lombard has such a relation to 'Inkassbank'. This bank owns the control package the company's shares. Besides, at present (1999) the company unites around three thousand private shareholders.

As a priority in the company's development the management put a strong emphasis on introducing modern technologies, spending about 3,5 million Rubles for its improvement. This is already visible in the organization chart of management of the firm, breaking up the company into different pillars of responsibility: public relations, technology and accounting.

Fig. 2: Organization Chart of United-Lombard Management



Source: Personal information

Most far-reaching in technical improvements is the developed of specific software for the bookkeeping and management of pawnshops, which United Lombard introduced in 1996. Due to these new technologies, operation cost in United Lombard could be decreased considerably ('We have reached 1,5 %, that is actually next to zero', personal interview with Bobrov). This has given the company decisive advantage compared to other competitors, in determining the interest rates. United Lombard has reached a point where only very few personnel is necessary any more. According to Bobrov only perhaps 24 people could serve all the company's branches. But all the demand has been satisfied at the moment, and the minimum personal they require for running a branch is underemployed.

Bobrov is very convinced to be the leading enterprise in the Saint Petersburg (if not Russian) lombard market, concerning productivity and cost structure. The personnel have been reduced to a minimum. Each branch has a manager, who coordinates its work. Besides, the personnel of the branch usually include a hall-manager, expert-appraiser of precious metals, and sometimes some additional employees such as a watchman. The average number of employees is 3-4 people. Only two employees usually work in every United Lombard Buy-and-Sale Shop. The total number of employees working in all the branches of United Lombard and its buy-and-sale shops amounts to 55 persons only.

The United-Lombard Franchising System

On 1 April 1997 United Lombard took up franchising in the process of distribution of its technologies, software and technical support and published an advertising brochure. Franchising is described as a system of preferential business, in which a businessman initiating a new business or wishing to develop an already existing one further, obtains an opportunity to use in his activity skilled technologies, know-how and the trade mark of the franchising company that has got practical business experience. Leading western economists consider franchising as 'a dominant method of business in 90-ies'. According to the management of United Lombard, the franchising system allows firms, the so-called 'operators' to

- decrease the cost as a result of the reduction of current expenditures, due to regular revision and control of the technological process;
- optimize the system of payment and to decrease wages expenses, since United Lombard's technological systems and software allows to cut down the attendants of one branch up to three people;
- conduct effective control, which would optimize taxation;

- keep abreast of new developments in the field of industrial technologies, accounting and taxation, and to be insured against financial mistakes;
- conduct the professionally developed advertising campaigns on the basis of recent marketing data;
- receive advertising support.

When concluding the contract on franchising, United Lombard provides the following services to the firm-‘operator’:

- assistance and recommendations for reception of licenses and all necessary sanctions;
- delivery of the complete set of high-quality equipment, which is necessary for the organization of the technological process at the level of international standards;
- organization of the accounting system, including planning, support in registration procedures, installation of the accounting computer program;
- provision of a complete cycle of training of the employees of any status (from director to storage-worker) and their preparation for independent work in the branches.

In early October 1997 United Lombard concluded its first bargains on the sale of technologies and services by franchising. The purchase of the franchise costs USD 10.000. Such a contract envisages that United Lombard carries out preparation work and starts managing a pawnshop’s or trading house’s branch. The first pawnshop on franchising conditions – ‘Permskii Ob’jedinionnyj Lombard’ - was run in Perm. By 1999 similar branches of the firm ‘Lombard Stolichnyi’ (Lombard Metropolitan) are managed in Moscow.

“Their common parameters and volumes approximately make 50 % of those in Piter (Saint Petersburg, H.S.). We consider the Moscow firms as more prosperous, though the conditions of work in Moscow are rather from being favorable”.

These unfavorable conditions in Moscow are the result of bad functioning of the bureaucracy apparatus, and

“there’s no other, more corruptive apparatus, sunk in ignorance. That is, for instance, the cost price of opening a branch in Moscow is three or four times higher than here (...) Here [in Saint Petersburg], and it’s rather strange, if to consider all negative inherence of Sobtchak and (...) that of Yakovlev [the former and present governor], we have only one official within the whole city, who supervises our business, gives out the licenses and it’s clear that he depends on the volumes of the sphere he is in charge for. There are certain volumes of services; he is interested in the development of business and its normal maintenance. We’ve never given bribes to anybody in this city. It’s not

considered to be normal here. There are no problems in applying for something to officials (...) And in Moscow any attempt to receive any information - the conversation begins with 200 USD, and a person in charge will lift his eyes on you. It's 200 dollars. This system with its certificates, rates and normative documents was developed specially, so that an official could obtain a regular flow of money resources. This flow at every level is distributed and redistributed somehow, and as a result a quiet rallied team, to which any *cosa nostra* could be jealous, encountered. Therefore it's very hard to deal with this business in Moscow" (personal interview).⁵

Software, as well as the 'know how' of United Lombard, is disseminated by the company mainly via its franchising system, and only occasionally the software is sold to a third-side party as well. In that case, however, the software is usually not the latest version, but 2-3 year-old.

"These old versions are poor, evidently weak, with complications that won't give an opportunity to work in large-scale. [We have to do that] because in our market a copyright law is absent as such. Therefore we are compelled to sell. If we don't, some others will do. So that's why we sell. We sell very bad versions - well, from our point of view - although these versions are appropriate for small firms in our market" (personal interview).

Nowadays the company has suspended the further development of franchising, as a result from the impossibility to protect its copyright for its unique technologies in the Russian market, and a lack of payment morality of the firms demanding their service of franchising.

"You see, let's say, we sell our products only to those enterprises, which are located not far from us, so that we could always have informal opportunities to press them in case of any excess. Because if in reality they cease to pay, it's just impossible to get anything via court decree. Because when I apply to the court, the firm will be liquidated or lost, or something else. Besides, you see, if I come to any firm in Krasnoyarsk and ask: 'Show me your software' [to check whether they use a black copy] - I'll just reach back from Krasnoyarsk on foot through Taiga" (personal interview).

In spite of that, United Lombard has continued to sell software as before. The whole packet has been broken up in smaller parcels, such as 'commodity specialist's workplace, 'broker's

⁵ We would like to mention that there is a traditional quarrel between Moscow and Saint Petersburg being the primate city in Russia. This is very often expressed in the vernacular of both populations talking about the other.

workplace', and the 'buying up program', which is particularly successful now. The different parcels can be bought separately or as a whole packet.

The Buy-and-Sell System

In May 1997 United Lombard also began to start the buy-and-sell business under the trademark '*Ob'jedinionnyi Torgovyi Dom*' (United Trading House). Buy-and-sale services dealing with people's private property are widely spread all over the world and usually counted among the label of pawnbroking, while from the point of view of the customers it is quite a different thing. The share of these services in the Western pawnbroking market covers 60% (personal information). As a result of their own marketing research in Saint Petersburg the United-Lombard management concluded that 80% of the population are interested in it. Any consumer good can be assessed by the shop administration according to its market value: modern clothes, footwear, household equipment, electronic and computer equipment, electric instruments, crystal, ceramics and porcelain, bicycles, sports articles, furniture for houses and offices, carpets, and the like. And the people, who sell an item, are no, and do not feel as, debtors.

The buy-and-sale shops differ from commission shops, which were popular during the Soviet period and are still found all over Russia, that the seller receives money immediately and does not have to pay for the storage until the commodity has been sold, since at the moment of sale the good belongs to the shop. Moreover, the United Trading House offers another service to its clients. They have an opportunity to buy the good back at a special rate before it has been sold. This rate slightly exceeds the sum, which the client received, to cover administration cost, but it is lower than the sales price set by the administration.

The management of United Lombard argues that unique operating methods, which were developed by the company, allow stipulating the maximum turnover and providing high business profitability. These methods include the evaluation of articles and an optimal system of price assessment, which is based on a mathematical model. High-speed turnover (from one to ten days) is a key factor for the success of this sub-business line. It allows keeping the refinancing costs very low. Every buy-and sale shop counts several hundred customers per day, only two to three personnel handling the business. As in the case of the pawnshops an online system gives the management immediate and continuous feedback.

While the company celebrates its buy-and-sell shop as an appropriate adjustment to market demand, benefiting the customers wants, these principally complain that buy-and-sell shops, whether or not belonging to this company, use to assess the items very low. Particularly in such an enterprise the interest of both customers and enterprises is incompatible. Indeed, we observed, that a number of 2nd-hand household items of particularly poor customers were either not accepted, or the price offered was so low that the customers went away with a shake of the head – in spite of their need. On a whole, buy-and-sell shops have been mushrooming throughout the city during the past two years, and the expansion of such a business by United Lombard demonstrates that it is very profitable.

Technical Equipment, Accounting and Advertisement

United Lombard is equipped with the most recent achievements in computing technologies, and also uses these for the advertisement. In addition to the ‘traditional’ advertisement techniques, i.e. leaflets in newspapers, banners in the city, radio spots or small advertisement gifts such as calendars, the company has its homepage in the Internet,⁶ both in English and Russian language. On these pages it provides information of the firm, the franchise program and the computer accounting program for monitoring pawnshop operations. Furthermore, the homepage provides links to both the American ‘National Pawnbrokers Association’ and the ‘Interregional Pawnshop Association’. Due to its international contacts it also offers printed high-standard English advertisement material. A final advertisement source is the journal of the Interregional Pawnshop Association called ‘*Sovremennij Lombard*’ (Contemporary Lombard).

The technical equipment of the branches (online computing, email system, accounting program) ensures direct flow of information within the firm, monitoring of market changes, flexibility of pawnshop services within the branches (credit redemption at any time within the conventional period, partial redemption, credit prolongation by paying off only the interest, etc.), a high turnover and immediate checking of business results of the company, reduction of operation costs particularly on the side of personnel (both with regards to wages,⁷

⁶ For further information, see <http://www.united-lombard.spb.ru/>

⁷ In every United Lombard branch a minimum of three employees can handle around one hundred transactions daily.

mismanagement and theft), adaptation of the optimal strategy for maximizing profits,⁸ and correspondingly, a lower interest rate. Furthermore, due to its good standing and refinancing possibilities the company can also provide large-scale credit for high-value items.

The company's accounting takes place according to western standards. According to Bobrov,

“our knowledge is based on western teaching books, that is why we've got a western way of thinking, i.e., we are motivated by the idea of everyday-balance similar to the banking system. The most important concept for us is the amount of loans at a certain time and certain place, in this case it's here [pointing to the personal computer on his table, the data being not visible for us...], it's the so-called 'working assets', i.e. the money which we consider as a guarantee for our future profitability” (personal interview)

The monthly turnover of the company amounted to 20 million rubles before the crisis:

“We had this money in cash. In other words, the volume of deposits amounted to 16 million rubles. That is, in accordance with the former currency rate it was equal to three million USD” (personal interview).

The financial crisis in August 1998 became a crisis for the company, too, because the turnover decreased to one-third of its former volume. Before the crisis all the United Lombard departments served around ten thousand people daily. In July 1998, shortly before the crisis, the exact figure was 10.068 persons. After the crisis the volume of transactions decreased considerably. In January 1999 the company counted no more than 7.640 customers.

Bobrov related this fluctuation to the weak Ruble in which business takes place. For some firms being independent from the international market the solution to this problem is to calculate purely in rubles independent from the actual dollar-rate. The majority of businesses, however, has to deal in rubles but to refinance itself on the basis of the exchange rate to the dollar. Also for United Lombard this means that all internal operations are made in the dollar equivalency. This severely affects the interest rate of credit provided by financial institutions like lombard houses. Bobrov describes this situation for the company as follows:

⁸ United Lombard was the first and is the company in Saint Petersburg and probably Russia that introduced a marketing research division and employs an analyst (a mathematician) for market modeling, to find out the appropriate interest rate for maximizing profits.

“Whatever money - whether our own or that of our shareholders - in any case it will always be dollar liabilities. That is, whatever currency it will be - ECU, EURO, and the like – it is always hard-currency liabilities. And you know, our assets are in soft currency. Thus, in such a situation [of crisis] we had to take very high interest rates in rubles, in inconvertible currency, about 30 percent per month, to insure ourselves from possible dollar gaps, to compensate losses and to gain some profit. You know, when people are forced to take credit with 30 percent interest, not many of them wish to deal with us. Or people try to get a short-term loan, to repay it quickly. We began to earn less than formerly, people’s incomes decreased, our turnover decreased (...) [In response to this] we reduced interest rate to a considerable extent; actually we reduced profitability of our business. The reduction of profitability in lombard business on a whole affects many dimensions (...) [But now], we have almost reached former volumes” (personal communication).

At the time of our interviews, eight months later, the company could expect to reach the pre-crisis level of turnover and profits again, since inflation became much lower.

Perspectives of the Company

As to perspectives of business development for the near future, Bobrov does not risk giving any prognoses. Such an attitude is firmly grounded and connected with a lack of confidence in the Russian government:

“Our government can actually be considered as an enemy. We have certain operations and mathematical methods that provide strategies for the next two or three years, under conditions of ‘normal’ potential risk (...) But there is no sense of planning business for two, three or five years, if you do not know what will be within a year. So, this is the most vague issue. Under conditions of high inflation, which has been expected for this year, our mathematical calculations suggest, setting up new branches is inexpedient, because they would be profitable within two or three years only. So, there is no reason for optimism” (personal interview).

As to perspectives of regional development of the company, Bobrov remarked that there are certain problems, but no solutions so far.

“We can definitely assert that at present there are no conditions for creating an analogy of Cash-America Corporation in Russia, because, let’s say, we can deal only with Saint Petersburg and Moscow. We don’t want to open

pawnshops in any provincial town, as we are interested in large-scale business, in contrast to business in smaller cities, the number of which today runs to around 90. Any of these functions according to their own laws, conceptions, or group interests, and every city has its own local authority. That's the problem. It affects one's health and can involve much loss of money. That's why we don't intend to consider this question, at least within the next few years, i.e. the development of the network at present has been focused on Moscow and Saint Petersburg" (personal interview).

At the same time the management of the company has pursued close contacts to the West, particularly to America. In 1997 the company became a member of the American National Pawnbroking Association.⁹ Now, Bobrov is interested in gaining access to the American lombard market via intermediaries:

"We consider one alternative: the development of pawnbroking in America. We work at this constantly, build up our presence in the market, try to use new technologies, study legislation. We have already made some operations in this market. You see, another country, other laws..." (personal interview).

In spite of its membership in the National Pawnbrokers Association, some local members were unhappy with United Lombard's activities in the United States. Bobrov describes this situation as follows:

"We are going to open our first pawnshop in Dallas, to prove that we could be the best in this small and very dense market. As to us, we know it for sure, but as to the Americans, some of them doubt this. And as a result, after removing the former president of the Association by the decisive initiative of Cash-America Pawn [a US Pawnbroking Company] two years ago, our friend Patrick was deprived of his position because of his contacts with Russians. One of the leaders of the association, the new president of Cash-America, told me in a private talk: 'Dear Nikolai, we won't be happy to see you in our American continent, and we'll do our best not to let you obtain the license for pawnbroker activity' (...)" (personal interview).

However Bobrov considers the American market to be similar to the Russian, and hence being attractive for Russian investment:

⁹ Information on this Pawnbrokers Association can be obtained from <http://npa.polygon.net/index.html>.

“The mentality of the American population is like ours. Behavioral motivations are very similar. I feel in America like at home. A lot of cities, megapolices in particular, not much different in size from Moscow or Saint Petersburg... That is, the American market is similar to the Russian one, this is very interesting, as well as the problems of adaptation to this market. Besides, it is, generally speaking, an alternative to continue living in Russia and depositing money within this country. So if to speak of any perspectives, there are two variants: Moscow-Petersburg, or the US market” (personal communication).

As to European markets, their exploration is far from being sufficiently investigated by United Lombard, so that investment cannot be expected for the near future. The reason is that, according to Bobrov’s opinion, Russian businessmen are not accustomed to these markets, which are connected with a particular way of life and legislation.

“The European market is based on quite different principles... Despite all this, we are strongly interested in it, we study people’s motivation, and generally speaking, we could set up a pawnshop wherever we want: either in Austria, in Germany or in Sweden, and for sure we would be the best. However, we don’t consider this matter so far” (personal interview).

At present, the management of United Lombard connects perspectives of business development with changes in the direction and scale of the company's activities. One of the new directions will be auction activity:

“The existing business serves mean companies. At present we are trying to deal with line business, that means the whole market of secondary turnover of goods. That is, to gain primary profit or ‘to take off cream’... And as to mean items - to leave all this stuff - stockings, footwear, vases and all like this - to private enterprises, while computing equipment and expensive household appliances, for instance - we would leave for ourselves. Our task is to avoid cheap things and to establish line business, and perhaps to modify it in addition. That is, to do something, which is accepted in the West, America or Europe... It means auctioning. We’ll try to conduct a number of auctions in summer. That is to do it in a civilized way (...) You see, this kind of business - buying up - I’ve been engaged in it for two years now. We prepared this business for some time, and finally we started and began to develop it. Auctions are another thing, which came to my mind. Generally speaking, we have already worked out the technical aspect of this business, i.e., how and in what way it should be organized (...) We have been working out different aspects. So, in other words, we are in the process of preparing this business. You know our [i.e. the Russian] second-hand car sales markets, where the owner offers his car to visitors - well, this is a relict left from the period of

socialism. There should be a normal buying-up of second-hand goods, a normal organization of sale. Nowadays VAZ [Volzhsky car producer] began to buy up and sell its [second-hand] 'Zhiguli', you know it, don't you? Perhaps, our companies will do the same" (personal interview).

In April 1997 United Lombard took unprecedented action against competitors offending against the rules of lombard business, under the slogan 'for honest and decent pawnbroking'. The company continued with a number of publications, speeches on TV and reports from the conference 'Contemporary Pawnshop: Myths and Reality'. In the course of this conference the management of United Lombard revealed dishonesty of their competitors who misused clients' economic ignorance and legally insufficiently secured position, to increase their profits. Therefore, the management of United Lombard explained the readers of newspapers and TV viewers all the details of lombard operation and advised them being more careful in their contracts with pawnshops (Chas Pik, No. 48 (777), 3 April 1997).

The United-Lombard Vice-Chairman Ruslan Grigoriev explained us that a number of firms use several variants of fraud of clients, who are inexperienced in lombard business. The first variant conceals that lombards use a split interest: one for the loan, another one for insurance. If a lombard house advertises the loan interest only, a client would not expect paying much more at the end. Grigoriev commented upon this situation as follows:

"It was put into practice from the times when the rule of a full-volume pawn was valid and there was no Civil Code, i.e. until 1995. I'll tell you why... Well, according to the law, the insurance of a pledge is usually made at the expense of a client, while according to the Civil Code it is to be made at the expense of the pawnshop. I.e., we should make the insurance for the benefit of the client. Therefore, in practice there were two sums: an assessment of an article, but in reality a client got less, and this was connected with the uniform price of goods in Soviet retail trade, whatever city it was - Khabarovsk, Minsk or Moscow. And gold cost everywhere the same. This means that there was a normal retail price, which was, as a rule, written on the label or somewhere else. In Soviet times this price was considered to be the assessment. A client received part of this assessment sum in cash only, ... a loan which was usually equal to 50 - 60 % of the assessment, so that in case of default it would be possible to sell this article cheaper than its assessed retail price. The sale of goods was organized in pawnshops according to this procedure. But the goods were insured against the full assessment price... Nevertheless, the insurance had to be paid by the client. He paid interest for the credit separately, while the interest for the insurance was additional... When pawnshops began to be regulated by themselves, this practice of fraud continued. Up to 1996 there was a real advertising-price war in Saint Petersburg. Interest was priced not per month,

but per day. So, usual were 0,9% or 0,7% per day, but suddenly 0,3% per day appeared! 0,3% per day would mean 9% per month! [But there was another 0,5% hidden in the difference between assessment price and loan.] Actually it made 25% per month, but not 9%, as it was being advertised everywhere” (personal interview).

One day, Grigoriev continued, United Lombard decided to smash this system of collecting two parts of interest confusing clients and allowing pawnshops to deceive them.

“...So this struggle began. We started step by step lowering loan interest and increasing assessment interest... So it began. It was a kind of war. When we got tired with these counter-measures, we still were trying to compete, and our volumes were far from being like present ones. At that time we didn't hold the leading position so far. In the beginning of 1997 we held a press conference dated just for opening a branch on Svetlenskaya Square. We invited TV... Well, and at the same time... It was our first attempt of reorganizing this business... Because, we understood what did such economic newspapers as ‘Kommersant’ and ‘Delovoj Peterburg’, speaking not at all from ‘Sankt-Peterburgskie vedomosti’ or ‘Reklama-Chans’, not understand. People could not imagine how pawnshops operated (...) and we suggested a completely open game to all actors in the Saint Petersburg market. We offered to all of them: ‘Let’s honorably and openly advertise real interests per month’ (...) We also revealed the ways of deceiving the people, for instance when we demonstrated that a client is said to pay 9 %, while actually he pays 25%, and showed real figures. People could check it by comparing one and another pawnshop (...) We introduced uniform interest” (personal communication).

Another way of fraud may be concealed in the difference of assessment price and real loan sum. Even now United Lombard is the only company of all Saint Petersburg lombard houses giving the full assessment as the loan sum. Other pawnshops, as a rule, give loans amounting to 60 - 80% of the assessment. Against our critical comment that some customers complained about a very low assessment sum at United Lombard, Grigoriev explained further:

“We do this to avoid any mess. Let’s assume that assessment equals to 300 rubles, and the loan is 100 rubles only. People are getting confused, from what to pay the interest. It is not necessary for us, as at present the assessment has not got any semantic meaning in the market economy. Some people argue that it should correspond to the price of, for example, a gold ring in the shop (...) How much you will give as a loan sum is up to you. I treat the gold ring as a raw material, roughly speaking. It is a pledge subject; I don’t consider its (...) art value. There’s no difference for me - whether this ring is from the shop at the corner or it is from Faberge’s collection... You see I don’t have experts in

this field... Therefore, for the assessment we use the gold price at the London stock exchange” (personal interview).

Another innovation of United Lombard was the abolition of the so-called ‘preferential term’, an additional month, during which a client has the right to redeem his/her pledge, although the contractual term has already expired.¹⁰ For this right a client had to pay a much higher interest during this prolongation period. As Grigoriev remarked, this right turned into penalty instead of an advantage, and previously, it was rightly named ‘penalty term’ instead of this euphemism now.

“Our mathematicians have shown that there’s no reason for this. We cancelled it in 1996. That is, if to represent it schematically [drawing a model on a piece of paper to explain us the mechanism]... Here is a month, here is another one... Generally speaking, according to the contract, a client has 30 days. In fact he has the right to use a loan for 60 days. If we introduce a much higher percentage for the second month, people try to redeem their pledges during the first month, so that they not pay this high interest” (personal interview)

and this happens sometimes even with a loan from another pawnshop, so that the customer will get lost to the company. From the point of view of the pawnshop profits it would, however, be much more advantageous when people keep their loan and pay interest for another month. So, if they regularly pay their interest they can extend the loan period.

Comments

Investigating the organization of United Lombard, we want to conclude that the management of United Lombard treats pawnbroking, first of all, as a capitalist business, aiming at the most advantageous company results with regards to profits, shareholders’ value and market expansion. The role of a pawnshop as a ‘social service’ to low-income households is not particularly relevant for the management. Furthermore, we may assume that the company even does not primarily aim at this target group, but prefers customers from higher-income groups, leaving the poorer segment of society to public pawnshops. However, the study of this firm aptly demonstrates that the company’s aim of making profit is not necessarily disadvantageous for the customers. On the contrary, United Lombard is among those firms with the lowest interest rates and most open price policy, where the customer can calculate how much the loan

¹⁰ Usually the general term is set to one month by contract, while the ‘preferential term’ lasts for another month.

will really cost – if he wishes to do so. This aptly demonstrates as, for example, the perspective of an instrumental business ethnics holds that capitalist aims and social benefits are not generally contradictory.

This young firm has learned a number of lessons from its contacts to Western pawnshops. One of these lessons is that transparency of business, a courteous behavior towards the customers and an attractive outfit of the shops are important elements in business particularly at the fringe of the financial market, where the boundary to criminality is very often not clear-cut. This already holds true for pawnshops in the west, which also aim at changing their images (Andrews 1994; Wolf 1997), but is particularly necessary in the Russian environment at the sight of whole generations (the middle-age and older generation) having been socialized during the Soviet period and having strong resentments against capitalist business.¹¹ For these generations it is difficult to be trustful to private firms, particularly when one has already lost much money to banks or other lombard houses, which were mushrooming and rapidly collapsing again in the course of market liberalization. United Lombard's policy of transparency and good information flow about the lombard business in general, and the own firm in particular, must be seen in such a light of upgrading the pawnshop image, trying to eradicate the negative attitude towards lombard business, which has always existed as a stereotype in Russian (as well as non-Russian) literature and was also prevailing in Soviet time, where, based on the state ideology, citizens considered the way to a pawnshop as shameful and humiliating. However, this aim of polishing the pawnshop image has not yet been achieved.

Furthermore, United Lombard is representative for a number of young Russian firms and management styles that can be considered adequately adapted to market conditions, within an economic setting that is characterized by insecurity. The firm aims at persistent development of technologies, expansion of lombard services within Russian and, because of the insecure environment, to the international market. For achieving these goals the firm uses contemporary advertisement techniques as well as market research and networking to lombard associations abroad, adapting and implementing their techniques to Russia. The public relations department of United Lombard makes excellent work. Information on United Lombard activities regularly appears in the city press. All the news in the sphere of the company's business standing can be found in Saint Petersburg newspapers. Public relations material not only concerns the opening of a new branch of the company, but also statistics of the company's financial standing,

¹¹ For a possible explanation to failures of introduction of a market economy from the perspective of people's socialization, see Schrader (1999b).

comparative interest rates, and the like – being itself advertisement.¹² Another factor of business success is that the firm has diversified its business with the buy-and-sell shops and aims at opening up other business lines.

The chairman of United Lombard self-confidently considers the organization of the firm as most advanced in St. Petersburg, if not in whole Russia. This is expressed in the firm's advertisement for the franchising system:

“The findings in the field of marketing allow to supervise changes of conditions for competition, to conduct advertising campaigns with minimal expenses and to receive current information about basic financial and economic indexes of the work of a lombard, to predict and to plan its financial activity (...) Applying the system of marketing researches in your work, you can regulate services of your enterprise,.. optimize conditions of work, plan financial activity, that finally will put you into the leading position in the market of lombard services in the region” (Ob'jedinjonnyj Lombard 1997: Sistema franchaizinga: 4, 8).

This is exactly what United Lombard claims to have achieved in St. Petersburg now. Nikolai Bobrov proudly insists of nowadays having more than 50% of the market share in Saint Petersburg. Whether or not we can believe these figures is hard to assess, particularly because only two years ago the share no more than around 30%.¹³ Such high fluctuations are not very probably, because United Lombard did not make a takeover and the main competitor in the market, the Saint-Petersburg City-Lombard, which was said to have a market share of 35% at that time, has also continued to expand its business.

Interesting is Bobrov's reflection upon competition in the Saint Petersburg lombard market, and he believes that the concept of 'competition' does not adequately characterize the situation. Rather, every important lombard firm develops a particular niche in business.

“Somewhere I believe that competition as such doesn't exist in developed society any more. I.e. the more I observe the markets of the USA or Europe, the more I begin to understand that competition... Well, for example, in the

¹² To provide an example: 'Delovoj Peterburg' announced that on 1 November 1997 United Lombard reduced loan interest from 16 % to 12 % per month, simultaneously raising the prices for gold from 60.000 to 70.000 Rubles per gram (Delovoj Peterburg No. 105, 12 November, 1997).

¹³ Delovoj Peterburg No. 21 from 25 March 1997

teaching books they are being considered in one or another way (...) But the same does not occur in reality. For instance, the curve of demand is a rather complicated thing depending on a number of indices... it varies daily... Therefore, if you try to satisfy this demand, you have to consider everything: articles, price, quality, service... Actually it does not happen that two firms become direct competitors... It does not happen, as a matter of fact (...) That is, there's not such a competition, as those textbooks teach us (...) Roughly speaking, we provide certain services and our closest competitor provides another... I.e., we coincide only to some extent".

To put it another way, every important lombard firm has a certain monopolistic niche, so that competition is limited to a certain small sphere only and does hardly affect the business volume.

We agree with Bobrov that – within only five years of operation - United Lombard has become the most promising company in the Saint Petersburg lombard market, which can be expected to expand further – within Russia, and perhaps even abroad. Whether or not we can share Bobrov's self-consciousness to be competitive with this firm in every market is, however, another affair.

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